

THE KROGER CO.
ANNUAL
REPORT
1950

Kroger

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OFFICERS

CHARLES M. ROBERTSON, *Chairman of the Board*

JOSEPH B. HALL, *President*

JOSEPH BAPPERT, *Vice-President*

WILLIAM E. CARTER, *Vice-President*

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ROGER B. CONANT, *Assistant Treasurer*

BRYAN J. WEBER, *Assistant Treasurer*

JACOB E. DAVIS, *Vice-President*

JOHN M. LOCKHART, *Vice-President*

JOHN H. SADLER, *Secretary*

THOMAS T. OYLER, *Assistant Secretary*

SYDNEY G. WILSHIRE, *Assistant Secretary*

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Vice-President

JACOB E. DAVIS
Vice-President

WALTER A. DRAPER, *Cincinnati*
Chairman of the Board, The Cincinnati
Street Railway Company

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Chairman of the Board,
The Central Trust Company

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Proprietor, John J. Gilligan & Son

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President

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CARL M. JACOBS, *Cincinnati*
Partner, Frost & Jacobs

A. T. KEARNEY, *Chicago*
Partner, A. T. Kearney & Co.

CHARLES M. ROBERTSON
Chairman of the Board

STANLEY M. ROWE, *Cincinnati*
President, The Shepard Elevator Co.

JOHN H. SADLER
Secretary

DONALD M. WOOD, *Chicago*
Partner, Childs & Wood

PRESIDENT'S LETTER

The net income of The Kroger Co. in 1950 was \$13,087,542, or \$3.56 per share of common stock. Sales for the year were \$861,242,642, exceeding those of 1949 by 6.6%. Operating expenses increased \$7,358,122 over 1949, principally due to higher wages. Federal income and excess profits taxes amounted to \$11,487,000, equal to 47% of taxable earnings, as compared to 1949 Federal income taxes of \$9,290,000 at the rate of 38%.

Adoption of the LIFO (Last-In-First-Out) method of inventory valuation for the major part of our grocery inventories resulted in a reduction in reported net income of \$1,302,000, and a reduction in Federal income taxes for 1950 of \$1,765,000. The LIFO method reduces reported income and Federal taxes thereon during periods of rising prices by eliminating certain "inventory profits" from such income. If Kroger had continued on the First-In-First-Out inventory method as used in prior years, our reported net income would have been \$3.92 per share as compared to \$3.71 per share in 1949.

On December 13, 1950, the shareholders voted to split the common stock on a two-for-one basis. All per share earnings figures herein are based on the increased number of shares now outstanding.

Cash on hand at the year end was \$25,869,452 and bank loans were \$6,000,000. Total inventories were \$72,223,385, with retail inventories equal to 21 days' supply, as compared with 23 days' supply at the end of 1949.

During 1950, The Kroger Co. opened 185 new, relocated and remodeled stores at a cost of \$10,152,478. An expanded store program had been planned for 1951. The recent order curtailing construction will materially reduce this program, but there are numerous stores under construction which will be completed.

A new warehouse has been completed at Atlanta, Georgia, and one is under construction at Pittsburgh, Pennsylvania. Warehouse sites have been acquired in Nashville, Tennessee, and Cincinnati, Ohio. Construction will be started in 1951, subject to Government approval. Capital expenditures on warehouse construction and equipment were \$1,929,230 in 1950.

The truck and trailer fleet was further modernized in 1950 by new equipment costing \$1,729,319. Additional trucks and trailers are on order for 1951 delivery. Replacement and modernization of factory equipment cost \$1,296,476 in 1950. Capital expenditures for all purposes were \$15,379,922. Depreciation and amortization totaled \$6,931,614.

Substantial progress has been made in the past four years in modernizing Kroger's operating facilities. This improvement program will be continued to the extent possible under national emergency conditions. However, our facilities are now adequate for efficient operation. They are in better condition than at the start of World War II.

A sound personnel program is essential to our continued progress. Our primary objectives in this field are to attract and hold high-grade men and women at all levels of the organization and to secure from each of them the maximum of individual initiative and productive effort. To attain these objectives, our employee relations program should combine fair and adequate wage and salary administration, a retirement program to supplement social security, and employee participation in earnings resulting from increased productivity.

The first two phases of this program have been working effectively for several years. To accomplish the third phase, the management and Board of Directors have developed a savings and profit sharing plan for all employees and a stock option plan for the managerial group who are directly responsible for the continued growth and success of the company. These plans will be submitted for approval of the shareholders at the annual meeting.

It is our judgment that the Employees' Savings and Profit Sharing Plan will improve the morale of the entire organization and help materially to produce greater profits than would otherwise be attained. It will make Kroger employment more attractive to the type of personnel we seek to employ and retain.

The Stock Option Plan offers the executive group the opportunity to acquire ownership participation in the company on a basis favorable to the interests of the company and the shareholders. Substantial ownership in the company by its executive group will assure continued recognition of the shareholder point of view. The capital gain opportunity to the executives creates a direct and compelling incentive to increase the earnings of the company and, by so doing, tends to increase the value of the shares. During the last few years, we have lost desirable men to other companies which offered capital gain opportunities. The Stock Option Plan should enable the company to retain valuable executives.

It is our firm conviction that the proposed Employees' Savings and Profit Sharing Plan and the Stock Option Plan will contribute much to the continued development and success of the company.

In December, 1950, Mr. William E. Carter, formerly General Manager of Operations, was elected Vice President in charge of operations.

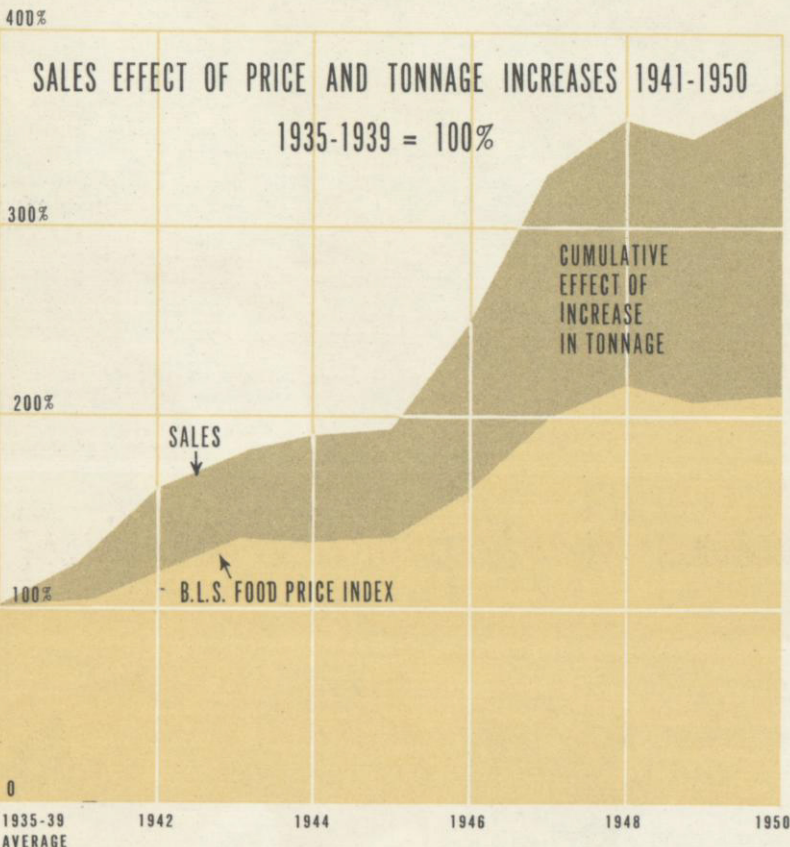
Kroger's operations in 1951 will be subject to the demands and controls of a war economy. We will fully support the national effort. We are confident that the company is well prepared to face the trying period ahead.

Respectfully submitted,

Joseph B. Hall

President

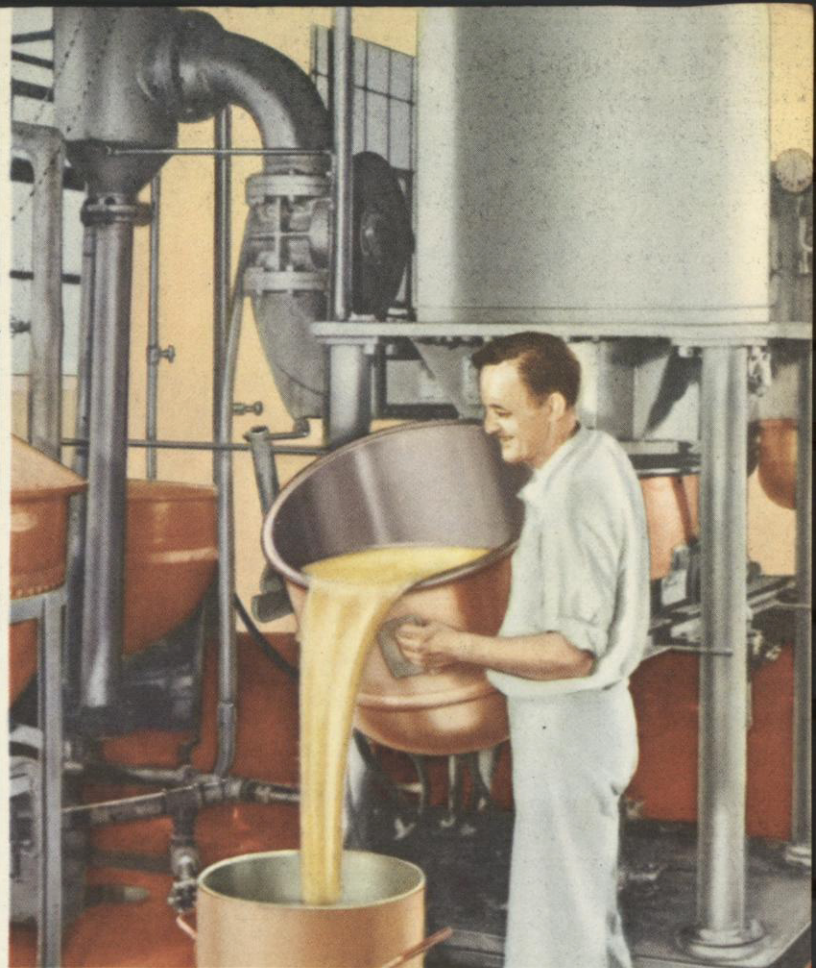
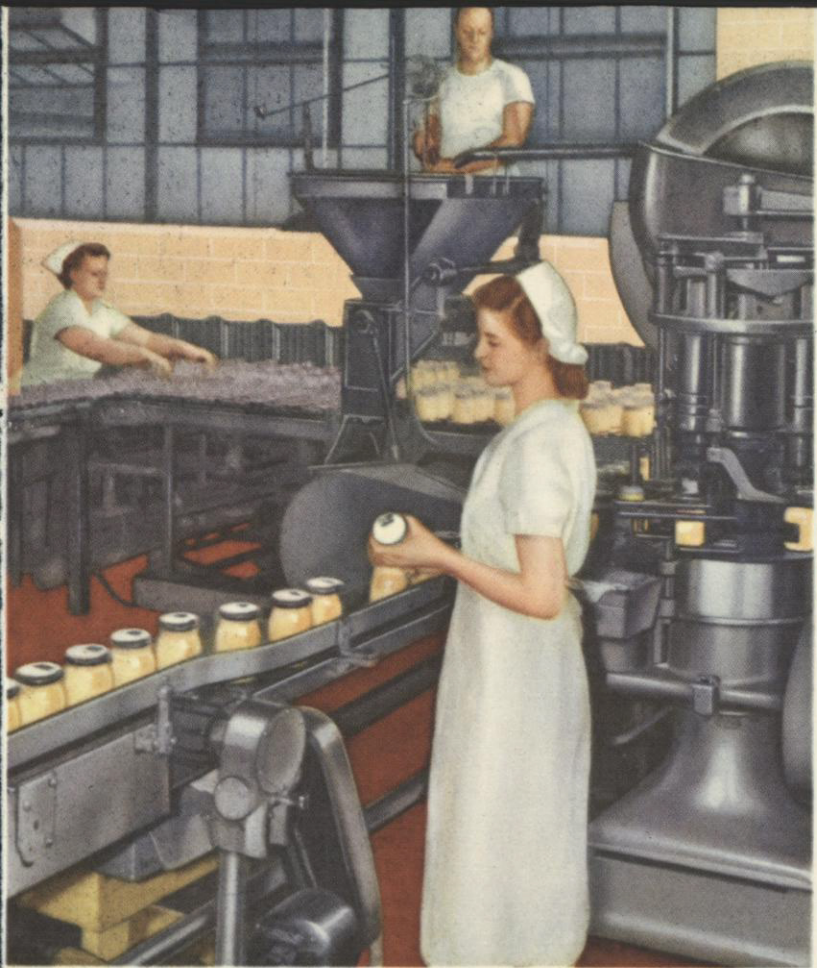
February 9, 1951





Kroger Manufacturing and Processing Plants produce the finest





quality foods to sell for low competitive prices at Kroger Stores



THE KRO

CONSOLIDATED BALANCE

ASSETS

Cash	\$ 25,869,452
Receivables	3,332,866
Inventories of merchandise (Note 1).....	72,223,385
Store and general supplies.....	3,294,459
Prepaid insurance, rent and taxes.....	<u>875,304</u>

TOTAL CURRENT ASSETS.....	105,595,466
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Investment in subsidiary insurance company not consolidated, at cost (Note 2)	1,776,361
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FIXED ASSETS:

Land, at cost or less.....	\$ 1,557,864
Buildings, at cost or less.....	\$ 11,727,504
Machinery and equipment, at cost.....	<u>52,847,955</u>
	64,575,459

Less allowance for depreciation.....	<u>27,303,553</u>	<u>37,271,906</u>	<u>38,829,770</u>
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TOTAL ASSETS.....	\$ 146,201,597
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LIABILITIES

Notes payable, banks.....	\$	6,000,000
Accounts payable		26,337,013
Accrued expenses		9,307,990
Provision for Federal taxes, current and prior years.....		<u>14,032,180</u>
TOTAL CURRENT LIABILITIES.....		55,677,183
Employees' Benefit Fund.....		2,293,918

CAPITAL

Preferred capital stock, par \$100:		
First preferred, 6%, 279 shares outstanding.....	\$	27,900
Second preferred, 7%, 172 shares outstanding.....	<u>17,200</u>	\$ 45,100
Common capital stock, without par value:		
Authorized 5,000,000 shares		
Outstanding 3,673,178 shares.....		33,671,735
Accumulated earnings	<u>54,513,661</u>	<u>88,230,496</u>
TOTAL LIABILITIES & CAPITAL.....		\$ 146,201,597

CONSOLIDATED STATEMENT OF INCOME

Years Ended December 30, 1950 and December 31, 1949

	1950	1949
Sales	\$ 861,242,642	\$ 807,739,440
Cost of sales.....	726,038,990	681,541,888
Operating and general expenses.....	110,629,110	103,270,988
Total	<u>836,668,100</u>	<u>784,812,876</u>
Income before Federal taxes on income	24,574,542	22,926,564
Federal taxes on income (including \$762,000 excess profits tax—1950)	<u>11,487,000</u>	<u>9,290,000</u>
Net income	\$ 13,087,542	\$ 13,636,564

CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Year Ended December 30, 1950

Accumulated earnings—January 1, 1950.....	\$ 48,316,510
Net income for 1950.....	\$ 13,087,542
Dividends declared—1950.....	<u>6,890,391</u>
Accumulated earnings—December 30, 1950.....	<u>6,197,151</u>
	\$ 54,513,661

NOTES TO FINANCIAL STATEMENTS

1. During the year ended December 30, 1950, the company adopted the last-in-first-out method of inventory valuation as to inventories of merchandise aggregating \$39,924,483 at the year end. As a result of this change in accounting policy, the inventories at December 30, 1950 have been stated in the accompanying balance sheet at an amount approximately \$3,067,000 less than they would have been stated if valued on the basis formerly used; the effect on the net income (after Federal taxes on income) for the year ended December 30, 1950 was a reduction of approximately \$1,302,000. This change in method of valuing inventories is subject to review and acceptance by the U. S. Treasury Department. Inventories under the last-in-first-out method are valued at cost. Other inventories are valued at the lower of cost or market.
2. The investment in Manufacturers and Merchants Indemnity Company, an insurance company licensed under the laws of the State of Ohio, represents the entire preferred stock and 66 $\frac{2}{3}$ % of the common capital stock of that company, and is carried on the books at cost. At December 30, 1950, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to \$1,666,787. Total assets of the insurance company, so determined amounted to \$7,471,150 consisting principally of cash, U. S. Government securities and other marketable securities aggregating \$6,775,480. Operations of the insurance company for the year 1950 resulted in a profit of \$122,326. A dividend of 5% (\$52,500) was paid on the preferred stock of the insurance company in 1950.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS,
THE KROGER CO.
CINCINNATI, OHIO

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary company as of December 30, 1950, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary company at December 30, 1950, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles which, except for the change in computing inventories, which we approve, were applied on a basis consistent with that of the preceding fiscal year.

LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants

Cincinnati, Ohio
February 9, 1951

FINANCIAL AND OPERATING STATISTICS

	1950	1949	1948	1947	1946
SALES	\$861,242,642	\$807,739,440	\$825,668,323	\$754,282,085	\$573,760,884
NET INCOME					
Before Reserves	\$ 13,087,542	\$ 13,636,564	\$ 11,811,120	\$ 12,110,976	\$ 10,865,780
After Reserves	13,087,542	13,636,564	9,311,120	9,610,976	9,365,780
NET INCOME PER SHARE*					
Before Reserves	\$3.56	\$3.71	\$3.21	\$3.29	\$2.95
After Reserves	3.56	3.71	2.53	2.61	2.55
DIVIDENDS PER SHARE*.....	\$1.875	\$1.75	\$1.50	\$1.50	\$1.25
NUMBER OF SHAREHOLDERS.....	26,144	27,041	27,436	27,421	27,270
NUMBER OF STORES.....	2,054	2,190	2,349	2,516	2,611
NUMBER OF EMPLOYEES.....	25,775	26,161	24,969	23,953	22,349
CASH	\$ 25,869,452	\$ 20,300,337	\$ 19,745,290	\$ 20,611,352	\$ 14,584,867
MERCHANDISE INVENTORIES	72,223,385	64,380,938	63,956,574	64,710,122	63,025,926
NET WORKING CAPITAL.....	49,918,283	51,406,979	50,295,776	50,434,510	46,347,007
ACCUMULATED EARNINGS	\$ 54,513,661	\$ 48,316,510	\$ 41,110,925	\$ 34,807,927	\$ 28,086,875
NET WORTH	88,230,496	82,033,545	74,828,460	68,564,962	61,848,610
NET WORTH PER SHARE*.....	\$24.01	\$22.32	\$20.36	\$18.64	\$16.81

*Figures for all years adjusted to reflect two-for-one stock split of December 27, 1950

Kroger

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